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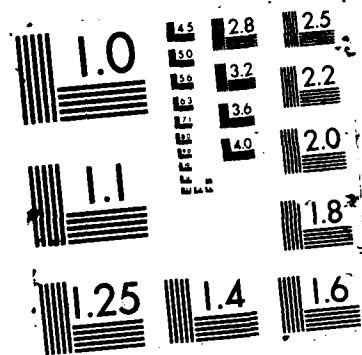
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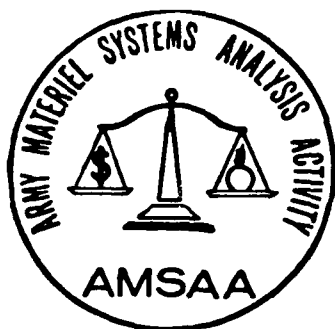




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LOGISTICS STUDIES OFFICE

TECHNICAL REPORT NO. 075

ARMY INDUSTRIAL FUND RATE STABILIZATION PROGRAM

DAVID N. DRYDEN

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U.S. ARMY MATERIEL SYSTEMS ANALYSIS ACTIVITY
LOGISTICS STUDIES OFFICE
FORT LEE, VIRGINIA 23801-6046

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<p>This study determined the extent to which AMC Industrial Fund activities were establishing stabilized rates. An analysis of work orders placed on the Depot Systems Command was performed and a review of existing regulations was conducted. AMC policies restrict the application of stabilized rates by authorizing pricing methods which stabilize rates after 40-50 percent of total costs have been incurred. Quantitative standards for measuring rate stabilization performance do not exist. DA policy on rate stabilization program was changed on 1 May 1986. Most AMC AIF program managers indicated that the revised policy will reduce the future number of cost reimbursable programs.</p>			
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ARMY INDUSTRIAL FUND RATE STABILIZATION PROGRAM

1. INTRODUCTION

1.1. Background.

The Army Industrial Fund (AIF) is a revolving fund used to finance goods and services which are in common demand. Industrial fund activities are given working capital to finance the cost of providing goods which are subsequently sold to customers who reimburse the fund. Industrial funds are intended to be self-sustaining.

Department of Defense (DOD) policy as enumerated in DOD Directive 7410.4R, dated April 1982, is to "establish, whenever feasible, stabilized rates and unit prices for goods and services." In this context the term "fixed price" is used for project orders or service orders. Project orders are specific orders for manufacture, overhaul, rebuild, and repair of equipment at the end item level. The term "fixed rate" is used with service orders or project orders which are orders for routine maintenance or administrative support of organizations; end items are not usually associated with service orders. This study uses the term "stabilized rates" to encompass both fixed price and fixed rates. Composite stabilized rates are established prior to each fiscal year, and individual rates and prices are fixed when orders are placed. These stabilized rates normally cannot be changed for the life of the order. During the life of the order, customers are billed at the stabilized rate irrespective of actual costs. The objectives of the rate stabilization program are:

- a. To provide a better means of coping with inflation, allowing the AIF to initially absorb the effects of unbudgeted inflation in order to protect customer program accomplishment.
- b. To develop more realistic and stable customer programs.
- c. To promote more efficient planning.
- d. To foster better program execution.
- e. To enhance military readiness.

Although DOD regulations allow non-stabilized rate programs (i.e., cost reimbursable programs) in the Industrial Fund, recent budget decisions by Office of Secretary Defense (OSD) examiners have indicated a bias against them. In the FY 86 budget review, OSD reduced the AIF budget by \$108.9 million and directed the Army to review the need for continuing cost reimbursable programs under AIF.

1.2. Problem Statement.

To determine if Army Materiel Command (AMC) industrial fund activity groups are establishing stabilized rates in accordance with current DOD/DA and AMC policy.

1.3. Objectives.

- a. Review the current policy and procedures that each AMC activity group is using to administer their stabilized rate program.
- b. Determine the degree that each AMC activity group is in compliance with OSD/DA/AMC policy. The study will be conducted in two phases. Phase one will examine only DESCOM. Phase two will examine all remaining AMC activities. This report covers phase one.
- c. Determine those areas where the basic goals of the rate stabilization program are not being met.
- d. Determine what improvements are needed to the rate stabilization program.

1.4. Limits and Scope.

- a. The analysis was limited to AMC Industrial Fund activities.
- b. The analysis used workload data from the Depot Systems Command (DESCOM). Workload data from other AMC activities were not obtained.
- c. The DA policy on stabilized rates changed on 1 May 1986. The revised policy broadened the application of stabilized rates. This analysis used data developed prior to the policy change.

1.5. Assumptions.

- a. That FY 85 performance is representative of work performed in prior years.
- b. That work completed by DESCOM will have a greater influence on AMC's rate stabilization program than that of any other AMC activity.
- c. That DOD policy overrides DA policy which overrides AMC policy which overrides subordinate AMC activity policies.

1.6. Methodology.

- a. A literature search was performed to identify earlier reports on the topic and to identify policies and procedures.
- b. A sample of FY 85 programs was evaluated to measure the degree to which AMC activity groups were complying with existing policy.
- c. Questionnaires to AMC activity group managers were used to measure their knowledge and attitude concerning the stabilized rate programs.

1.7. Findings.

- a. AMC, DA, and DOD policies restrict the type of orders which can be processed on a cost reimbursable basis. AMC policies prior to 13 March 1986 encouraged cost reimbursable work by authorizing pricing methods which stabilized rates only after 40-50 percent of total costs had been incurred.

b. DESCOM, the largest AMC activity group, is generally adhering to AMC policy.

c. The goals of the rate stabilization program are not clear. The DOD policy is to establish stabilized rates wherever possible. Quantitative standards for measuring rate stabilization performance do not exist at any level. Financial reports do not break out cost reimbursable work from stabilized rate work.

d. DA policy on the rate stabilization program was modified on 1 May 1986. The number of programs excluded from the rate stabilized program was reduced from 19 to 4.

e. Most AMC AIF program managers indicated that the revised DA policy will reduce the number of cost reimbursable programs at their activities.

1.8. Conclusions.

a. Prior to March 1986, DA and AMC policies encouraged a narrow application of rate stabilized programs.

b. Strict enforcement of the revised DA policy, which provides for only four exclusions to the rate stabilization program, will significantly reduce the number of cost reimbursable orders.

1.9. Recommendations.

a. That AMC discontinue the use of pricing methods which result in the establishment of temporary orders. Temporary orders are orders which are converted to stabilized rate orders after 40-50 percent of the costs are incurred.

b. That AMC rewrite existing policies restricting cost reimbursable orders to the four DA approved exclusions in formal comprehensive policy format to replace the current collection of letters, messages, budget instructions, and other papers.

c. That AMC, in coordination with individual program managers, establish quantitative standards for measuring rate stabilization performance.

d. That separate budget and financial forms be completed for rate stabilized work and for cost reimbursable work. Current reporting systems do not provide visibility to management over proportions of programs in cost reimbursable versus rate stabilized category.

2. ARMY INDUSTRIAL FUNDS

The National Security Act of 1947 authorized the establishment of the industrial funded activities. To establish an industrial fund activity, the responsible Secretary or Assistant Secretary of the Military Department signs a charter which specifies the name and location, designates operating agencies, and describes the nature of the activity's end services. The activity is required to identify the working capital requirements, the investment inventories, expected volume of business, and the source of reimbursements. During FY 85 there were 18 principal activities operating under the Army Industrial Fund of which 17 were AMC activities. See Table 1.

TABLE 1. Army Industrial Fund Activities

<u>ACTIVITIES</u>	<u>COMMENCEMENT DATE</u>
1. Pine Bluff Arsenal, Pine Bluff, AR	1 Jul 52
2. Watervliet Arsenal, Watervliet, NY	1 Mar 54
3. US Army Missile Command, Redstone Arsenal, Huntsville, AL	29 Mar 54
4. Rock Island Arsenal, Rock Island, IL	1 May 54
5. Military Traffic Management Command*	1 Jul 55
6. Tooele Army Depot, Tooele, UT	1 Apr 58
7. Anniston Army Depot, Anniston, AL	1 Jul 68
8. New Cumberland Army Depot, New Cumberland, PA	1 Jul 68
9. Red River Army Depot, Texarkana, TX	1 Jul 68
10. Sacramento Army Depot, Sacramento, CA	1 Jul 68
11. Sharpe Army Depot, Lathrop, CA	1 Jul 68
12. Tobyhanna Army Depot, Tobyhanna, PA	1 Jul 68
13. Corpus Christi Army Depot, Corpus Christi, TX	1 Jul 68
14. Letterkenny Army Depot, Chambersburg, PA	1 Jul 73
15. Sierra Army Depot, Herlong, CA	1 Jul 73
16. Seneca Army Depot, Romulus, NY	1 Jul 73
17. Crane Army Ammunition Activity, Crane, IN	1 Oct 77
18. McAlester Army Ammunition Plant, McAlester, OK	1 Oct 77

*Non-AMC Army AIF Activity

The DOD Defense Industrial Fund is a multi-billion dollar per year program. Financial data from the latest operating period (FY 85) reveal that the Army Industrial Fund is the smallest industrial fund of all services. See Table 2.

TABLE 2. Statement of Revenue and Expenses - FY 85 (\$ in Millions)

	NAVY	AIR FORCE	ARMY
Revenue	14,787.2	6,597.7	3,651.5
Cost of Goods	14,342.9	6,468.3	3,493.2
Surcharges	338.6	44.4	97.2
Revenue less Costs & Surcharges	105.7	85.0	61.1
Pass Throughs and Refunds (Net)	(74.2)	(94.1)	(14.0)
Net Operating Results	31.5	(9.1)	47.1
Operating Results as Percent of Revenue	0.21	(0.14)	1.29

Within the Army, five activity groups have been established to execute the industrial fund program. The activity groups and their responsibilities are listed below:

- US Army Armament, Munitions, and Chemical Command (AMCCOM).
(Manufactures artillery, small arms, and munitions. Also, performs engineering, repair, demilitarization, and product assurance in support of this materiel.)
- US Army Depot Systems Command (DESCOM).
(Responsible for depot level supply and maintenance support.)
- US Army Missile Command (MICOM).
(Performs research, development, testing, procurement, supply, and maintenance functions for assigned missile systems.)
- Military Traffic Management Command (MTMC).
(Provides CONUS port handling and terminal services.)
- Research and Development.
(Provides laboratory analysis, testing, engineering, and technical support functions.)

Among the Army activity groups, DESCOM accounts for 53 percent of the Army's industrial fund revenues. See Table 3.

TABLE 3. Summary of Operations - FY 85 (\$ in Millions)

	AMCCOM	DESCOM	MICOM	MTMC	R&D ACTIVITIES
Revenue	517.8	1,945.8	489.0	283.0	415.9
Cost of Goods	519.8	1,755.9	486.6	238.6	492.3
Surcharges	23.4	39.7	21.2	12.9	0
Revenue less Costs & Surcharges	(25.4)	150.2	(18.8)	31.5	(76.4)
Refunds & Pass Throughs	(0.8)	(3.7)	(1.5)	(0.5)	(7.5)
Net Operating Results	(26.2)	146.5	(20.3)	31.0	(83.9)
Operating Results as Percent of Revenue	(5.06)	7.53	(4.15)	10.95	(20.17)

Industrial funds obtain working capital at the time they are established through an appropriation or a transfer of funds from existing appropriations. Customer orders which constitute obligations for ordering activities provide the workload. Customers of Army Industrial Funds are primarily activities financed with appropriated funds. See Table 4.

TABLE 4. Customer Orders of AIF - FY 85 (\$ in Millions)

CUSTOMER	FUNDS
Army O&M Appropriations	2,331.5
Army RDT&E appropriations	325.8
Army Procurement Appropriation	401.0
Other Army Customers	380.0
Other DOD Customers	186.4
Non-DOD Customers	29.7
<hr/>	
TOTAL New Orders	3,664.4

Industrial fund activities are intended to operate in a business-type manner. Using their working capital, these activities finance the costs of providing goods and services ordered by customers. Customer funds are then billed to obtain reimbursement. A conceptual model of this process is depicted at Figure 1. Unlike appropriated fund activities which receive funding authority for a specific fiscal year at a specified amount, industrial fund activity resources vary with the amount of orders received.

Congressional control of industrial funds is exercised through the appropriation process; it controls the level of appropriated customer funds and establishes limits on some types of expenses which can be incurred by industrial funds.

Operational control over industrial fund activities is exercised through numerous financial management control techniques. Some of these techniques are shown in Figure 2. The purpose of these controls is to provide managers with data on actual versus projected performance. Despite the number of controls, we found no evidence of budget or financial reports which distinguish data on revenues or costs by rate stabilized vs cost reimbursable programs. The lack of financial data obscures management visibility over the size and scope of the cost reimbursable programs. Further, we found no evidence of performance targets for activities with respect to proportion of revenues which should be achieved through the rate stabilization program.

3. STABILIZED RATE PROGRAM

3.1. History.

During the early years of operation, most industrial fund activities established prices for each order either before commencing work or after some specified percent of completion. However, because of unexpected conditions such as changes in scope, inflation, and other factors, price adjustments to

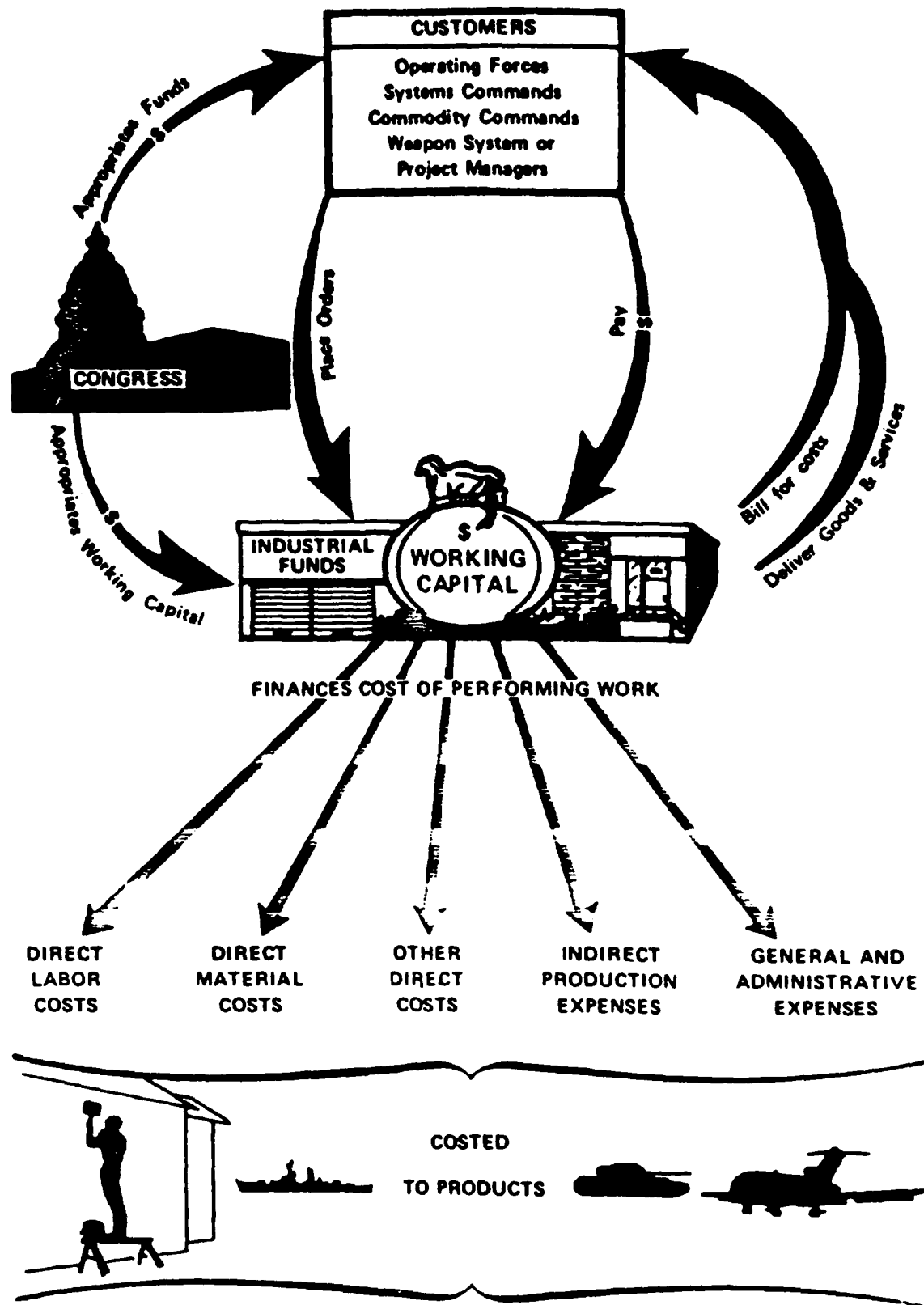


Figure 1. How Army Industrial Funds Work

FINANCIAL MANAGEMENT TOOL	MANAGEMENT INFORMATION	MANAGEMENT REVIEW ANALYSIS
Budget Reports	Forecast Costs	Budget Estimates vs Operating Results
Financial Statements	Balance Sheets	Estimated vs Actual Costs
Accounting Reports	Operating Results	Overhead Costs vs Targets
	Overhead Costs	Actual Hours vs Work Standards
	Direct Costs	
	Customer Orders	

Figure 2. Financial Management Controls

cover costs became common. To remain within the approved funding program, customers often were forced to reduce quantities which resulted in scheduling changes within the producing activity.

In July 1975, DOD Directive 7410.4, Regulations Governing Industrial Fund Operations, was amended to provide for a rate stabilization program. Under this program, industrial fund activities were required to fix the rates and prices to be charged customers' orders received during an operating period (i.e., fiscal year). Rates and prices are fixed for orders when received for the life of the order, not for a calendar or fiscal year. A year's rates apply to orders received in that year - not to billings in that year. The purpose of the stabilized rate program was "to insure a comparable level of funding between the industrial funds and their customer accounts."

The implementing DOD Regulation DOD 7410.4 delegated responsibility for the rate stabilization program to the services and in an imprecise section indicated that stabilized rates should be established "whenever feasible." Apparently, industrial fund activities believed stabilized rates were not very feasible. A 1976 Comptroller General Report found that stabilized rates were not widely used. Many activities believed it impracticable to establish a single price because the type and scope of work each customer requested was considered to be unique or different. The GAO acknowledged that work does vary frequently, but concluded that this condition did not preclude more extensive use of stabilized rates and that the advantages of stabilized rates outweighed the disadvantages. The prime advantage cited was that stabilized rates ensured operating efficiency and reduced the need for frequent program adjustments which contributed to workload instability. Stabilized rates protect appropriated fund customers from unanticipated inflation and from other

cost uncertainties. Program adjustments to pay for higher prices are minimized and, therefore, workload levels are also stabilized.

In the decade since the rate stabilization program was established, the program has gained in importance within DOD. There have been proposals which would even require stabilized rates as a criterion for operation of industrial fund activities. At the very least, non-stabilized rate programs have come under increasing challenge by OSD budget analysts. Cost reimbursable functions are undergoing close scrutiny and OSD directed funding cuts to the reimbursable program have occurred.

Industrial funds operate on a break-even basis. Profits may be disseminated by reducing subsequent years' rates at levels below costs and losses may be recouped by establishing rates above estimated costs. Profits or losses are identified by the term, Net Operating Results (NOR). Accumulated Operating Results (AOR) refers to operating results over a period of years. Table 5 shows a summary of actual operating results for FY 84, FY 85, and projected results for FY 86, FY 87.

TABLE 5. Army Industrial Funds (\$ in Millions)

	FY 1984	FY 1985	FY 1986	FY 1987
Net Operating Results (NOR)	49.4	47.1	(202.8)	78.4
Accumulated Operating Results (AOR)	41.3	101.3	(78.4)	-

3.2. Process.

Stabilized rates are normally established 18-22 months prior to the fiscal year in which they will become effective. A general conceptual model of this process is depicted in Figure 3. Current year costs by element of expense are captured and recorded by the activity's accounting system. Within industrial fund activities these costs are frequently identified to specific cost centers. Aggregate costs for the current year are adjusted for productivity gains and inflation indices to arrive at target year costs. These projected target costs are adjusted again by the net operating results of the current period. Aggregate adjusted costs are commonly prorated over the estimated direct labor hours to arrive at a fixed hourly rate. The composite fixed hourly rates for activity groups are reviewed and approved by DA and OSD. Rates within an activity group may vary individually as long as the aggregate of these rates do not exceed the composite rate approved for the activity. Once a fixed rate is established, it cannot be changed by the activity without approval of DA and OSD and without compelling reasons.

CATEGORY OF EXPENSE	COST ELEMENTS		CURRENT YEAR	ADJUSTMENTS		TARGET YEAR	OTHER ADJUSTMENTS	FIXED PRICE
DIRECT LABOR	MAN HOURS	x LABOR RATE	= LABOR COSTS	x PRODUCTIVITY	= PAYRAISE	= LABOR COST	O P R E E N R S E A U T T L I T N S G	APPROVED COMPOSITE FIXED PRICE/RATE
DIRECT MATERIEL	MATE-RIEL COSTS	x INFLA-TION	= MATE-RIEL COSTS	x PRODUCTIVITY	= INFLA-TION	= MATE-RIEL COST		
OTHER DIPECT	PAST DATA	x INFLA-TION	= OTHER DIR COSTS	x PRODUCTIVITY	= INFLA-TION	= OTHER DIR COST		
OVER-HEAD	MAN HOURS	x LABOR RATE	= OVER-HEAD COSTS	x PRODUCTIVITY	= INFLA-TION	= OVER-HEAD COST		
						11		
ANNUAL COST			CURRENT YEAR COST			TARGET YEAR COST	x	

Figure 3. Conceptual Model: Development of Fixed Prices/Rates

3.3. Adjustments.

Profits or losses of previous periods are also adjusted by what are termed refunds or passthroughs rather than through the rate structures. Refunds are amounts returned by industrial funds to customers for charges made in excess of costs; pass throughs represent amounts collected by industrial funds from customers for costs in excess of charges. Refunds and pass throughs are made at the appropriation level in lieu of the customer order level. The use of refunds and pass throughs reduces the risks of poor price estimates to both customer and producer at the individual order level but transfers the risk to the appropriation.

4. POLICIES GOVERNING STABILIZED RATES

4.1. DOD.

DOD policy on rate stabilization originates with a modification of DOD Directive 7410.4 entitled Regulations Governing Industrial Fund Operations. The pertinent clause reads as follows:

"In order to insure a comparable level of funding between the industrial funds and the customer accounts, a rate stabilization program has been established. The program requires the fixing of rates and prices to be charged to customers during an operating period. In determining these rates and prices, the activities should seek to minimize overall gains and losses. Operating results should be reviewed monthly to ascertain that unanticipated gains or losses are not occurring. Significant gains and losses will be the basis for requesting rate and price adjustments."

Details on implementation and scope of coverage were left to the discretion of the individual services.

4.2. Department of the Army.

Department of the Army policy on rate stabilization program is contained in Section IX of AR 37-110 entitled Budgeting, Accounting, Reporting and Responsibilities for Industrial Funded Installations and Activities. AR 37-110 requires the establishment of fixed prices for project orders summarized and expressed at the end-product level. Fixed rates are required for service orders based on manhours or mandays required to complete the order. Project orders are specific orders for the manufacture, conversion, renovation, overhaul, rebuild, and repair of equipment. Service orders are orders for routine maintenance or administrative support of ordering organizations. AR 37-110 also identifies 19 types of orders specifically excluded from the program. Among the more important exclusions are Foreign Military Sales (FMS), parts procurement, and work performed for non-federal customers. The complete list of exclusions are listed at Table 6.

DA's rate stabilization policy was revised on 6 March 1986, effective 1 May 1986. Citing a goal to develop budgets with revenue primarily from stabilized billings, the new policy reduced the number of programs excluded from stabilized rates to four. These four were FMS, non-federal customers, base closures, and parts procurement. The new policy also directed the Major Army commands (MACOMs) to designate a staff element with responsibility for the program and directed the establishment of a training program to ensure compliance.

TABLE 6. Costs Excluded From the Rate Stabilization Program

EXCLUSIONS FROM RATE STABILIZATION	
1.	Foreign Military Sales
2.	Non-Federal Customers
3.	Transportation
4.	Direct Sales to Tenants/Satellites
5.	Capital Equipment
6.	Parts Procurement
7.	Facilities Engineering Projects
8.	Construction Contracts
9.	Family Housing (Mgt & Staff)
10.	Ammo Peculiar Equipment Procurement
11.	Chemical Agent Munition Disposition System
12.	Program 8 (Military Training - TDY)
13.	Storage Modernization (Contracts)
14.	Program 9 (Public Info Off, West Coast Equip Exhibits, Host Cost for Personnel, Management for Executives Course)
15.	Base Operations Residual Funded
16.	Airfield Operations
17.	Maintenance of Forest Areas
18.	Base Closure Costs
19.	Project Order Termination Costs

4.3. AMC Policy.

AMC policy on rate stabilization prior to March 1986 was contained in the following references:

- a. AMC Regulation 750-28, 1 July 1982, Depot Maintenance Program Scheduling, Workloading, and Reporting System.
- b. Letter, DRCCP-B, 3 February 1981, subject: Letter of Instruction (LOI) - Fixed Price/Fixed Rate Program.
- c. Letter, DRCCP-BP, 22 July 1982, subject: Change 1 Letter of Instruction (LOI) - Fixed Price/fixed Rate Program.

Reference b above stated that it was AMC policy "to maximize the use of fixed price orders in industrially funded activities." AMC, like DA, identified the same 19 categories of orders which were excluded from the fixed price program. Unlike DA, however, AMC identified three methods of applying fixed prices. These methods are:

Method 1: Fixed prices or rates established for project orders or service orders with historical data where work is specific, definite, and stable. These are considered to be low risk orders for the performing activity.

Method 2: Fixed prices established when a predictable pattern develops and the scope of work is determined. This event is deemed to occur when 40% of the authorized quantity is complete or when 40% of the estimated costs have been incurred. Method 2 is applicable when the performing activity has no prior experience in performing the requested work. By waiting until 40% of the work is performed, the performing activity places more of the risk burden on the customer.

Method 3: Fixed rates established for orders where there is uncertainty as to the work to be performed. Usually this method is applicable to orders in Research and Development (R&D) projects. A fixed hourly rate is determined. As direct hours are used, progress is monitored until 50% of the estimated direct hours have been expended. At that time the order is reviewed and total hours are revised. If additional hours are needed, these additional hours are costed at the original fixed hour rate to determine new order value. Although AMC defines this method as a fixed rate order, it is nominally a cost reimbursable order. Customers are required to pay total costs based upon a fixed hourly rate. Risks are shared between the customer and the producer.

AMC Regulation 750-28 applies to work performed by depot maintenance activities. This regulation allows for two categories of fixed price orders:

Category 1 orders are complete fixed price orders which possess the following characteristics:

- Historical data is available.
- The work is performed on items with an NSN.
- The performance category is overhaul.
- The customer is direct Army.
- The work is performed by organic sources.

Category 2 orders represent orders established initially on a cost reimbursable basis but later converted to fixed price orders prior to 50% completion of the planned quantity or 50% incurrence of the planned costs. Category 2 orders normally fall into two areas:

- Programs for which the depot has no prior experience.
- Programs where the nature of the work is uncertain.

However, a comparison of the guidance in DRCCP-BF letter dated 22 July 1982 and AMC Regulation 750-28 reveals a consistent pattern of reducing the risk to the producer. Pricing Method 1 of the letter corresponds to Category 1 orders of the regulation. By limiting Category 1 orders to items with NSNs and to cyclic overhaul work, the regulation excludes other programs which may have been performed historically.

It must be noted that AMC Regulation 750-28 was written by DESCOM and [according to the HQ AMC staff officers responsible for AIF rate policy] not coordinated with the AIF staff. The regulation contradicted OSD, DA, and other AMC guidance, and it practically eliminated risk assumption by the AIF for depot maintenance orders. As a result of emerging findings from this study, HQ AMC issued instructions on 12 June 1986 for activities to disregard AMC Regulation 750-28.

4.4. Summary.

Prior to March 1986, the limits on the application of fixed rates are inversely proportionate to the level of authority issuing the guidance. DOD regulation established minimal restrictions on the use of fixed rates. DA policy specified 19 exclusions with the balance of the orders subject to stabilized rates. AMC policy retained the number of exclusions and restricted the remaining orders to those with stable, historic records. Further, AMC limited its risks further by permitting reevaluations after an allotted portion of costs (40-50%) had been incurred.

5. DATA ANALYSIS

5.1. Background.

To evaluate the efficiency of the AMC AIF stabilization program, we began our analysis with the DESCOM program. In FY 85, DESCOM accounted for 53% of the total revenues earned by the Army Industrial Fund.

A magnetic tape representing over 9,000 records was received from DESCOM. The data on the tape represented work orders placed on DESCOM in FY 85 and recorded in its Master Maintenance File.

Using policy guidance of DA, we attempted to analyze the data using the logic identified in the diagram at Figure 4.

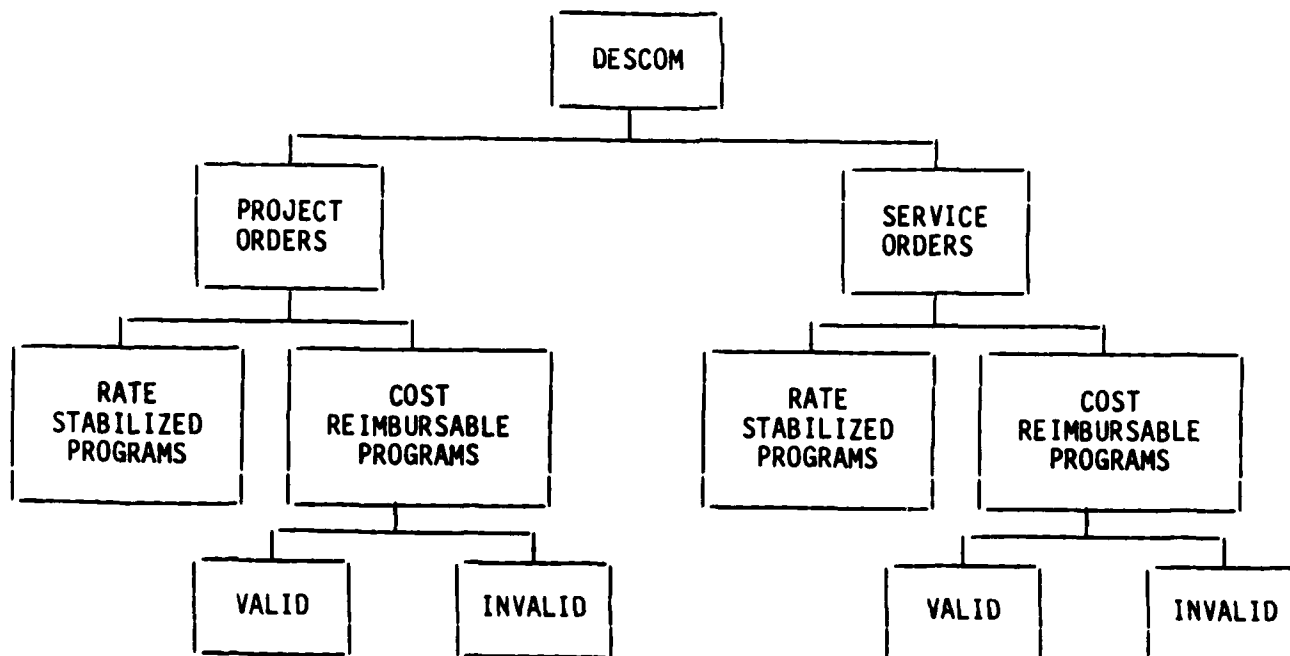


Figure 4. DESCOM Work Order Breakdown

In this diagram, valid cost reimbursable programs were those which fell under the exclusions allowed by the new policy on fixed rate programs. This policy provides for only four exclusions (FMS, Parts Procurement, Base Closures, and sales to non-federal customers). Invalid cost reimbursable programs were identified as any program which did not meet the exclusions. Analysis was performed at the macro level.

5.2. Findings.

Table 7 shows a breakout of FY 85 customer orders placed on DESCOM as of May 1986. Project orders represent 90 percent of DESCOM's total orders. Fifty percent of these project orders were classified as stabilized rate orders, 30 percent were classified as reimbursable orders, and the remaining 20 percent were classified as temporary orders which would be converted to stabilized rate orders after a percentage of costs or work completed. Sixty-six percent of the service orders were classified as reimbursable; the remaining 33 percent were classified as temporary orders. There were no rate stabilized service orders.

TABLE 7. Status of FY 85 Orders Placed on DESCOM as of May 1986

	PROJECT ORDERS	SERVICE ORDERS
<u>All Orders:</u>		
Stabilized Rate	4470 (50%)	0 (0%)
Temporary	2615 (30%)	668 (66%)
Reimbursable	1751 (20%)	334 (33%)
Total	8836	1002
<u>Stabilized Rate Orders:</u>		
With NSNs	4403	0
- for Repair	664	0
- for Overhaul	3298	0
Without NSNs	67	0
Total:	4470	0
<u>Temporary Orders:</u>		
With NSNs	944	6
- for Repair	115	0
- for Overhaul	471	0
Without NSNs	807	228
Total:	1751	334
<u>Valid Reimbursable Orders:</u>		
With NSNs	121	4
Without NSNs	26	1
Total:	147	5
<u>Invalid Reimbursable Orders:</u>		
With NSNs	2184	0
- for Repair	337	0
- for Overhaul	1539	0
Without NSNs	284	663
Total:	2468	663

Stabilized Rate Orders. Stabilized rate orders at DESCOM consisted almost exclusively of project orders for items with NSNs for repair and overhaul work. Only one percent of the stabilized rate orders were lacking NSNs. This finding is consistent with the logic of AMC Regulation 750-28 of limiting fixed price orders to those orders with NSNs for repair or cyclic overhaul work--categories of work in which a historical pattern can be developed and which have cost histories available.

Temporary Orders. Orders which are recorded temporarily as reimbursable to be converted to rate stabilized programs (Method 2 or Category 2 orders) are almost equally divided between those with NSNs (54%) and those lacking NSNs (46%). Temporary orders comprise 20 percent of all project orders and 33 percent of all service orders. The use of temporary orders is only described in AMC policy documents; neither DOD nor DA policies allow for this condition. Temporary orders minimize the AIF activities risk of costs exceeding the billing price by permitting a delay in the establishment of the billing price until a significant proportion of the costs have been incurred.

Reimbursable Orders. Thirty percent of all project orders and 66 percent of all service orders were classified as cost reimbursable. Using the four exclusions from the revised policy on stabilized rates we ran a filter on the cost reimbursable orders. Those which met the criteria for exclusion were termed valid orders and those which did not comply with the exclusions were termed false reimbursable orders. Of the 2615 project orders classified as cost reimbursable orders, only 147 met at least one of the four exclusion criteria. Of the 668 service orders classified as cost reimbursable, only five met at least one of the exclusion criteria. Eighty-eight percent of the cost reimbursable project orders which did not meet the exclusion criteria involved work performed on items with NSNs. The work required on these NSNs was predominantly repair (337) or overhaul (1539). Taken together, repair and overhaul comprised 86 percent of the work required for items with NSNs currently classified as cost reimbursable orders. None of the service order cost reimbursable work involved NSNs.

Dollar Value Analysis. Preceding paragraphs have discussed the high proportion of orders which were classified as either temporary or as cost reimbursable. We also reviewed the dollar value of orders to determine if the dollar value of these orders was also high.

Because our earlier analysis revealed that service orders were not rate stabilized, we concentrated on project orders. As of May 1986, approximately 70 percent of the total number of 8,836 project orders had completed quantities. The distribution of these completed project orders categorized by stabilized rate, temporary, valid cost reimbursable, and invalid cost reimbursable orders is illustrated at Figure 5. Figure 6 illustrates the dollar value distribution of the completed orders in Figure 5.

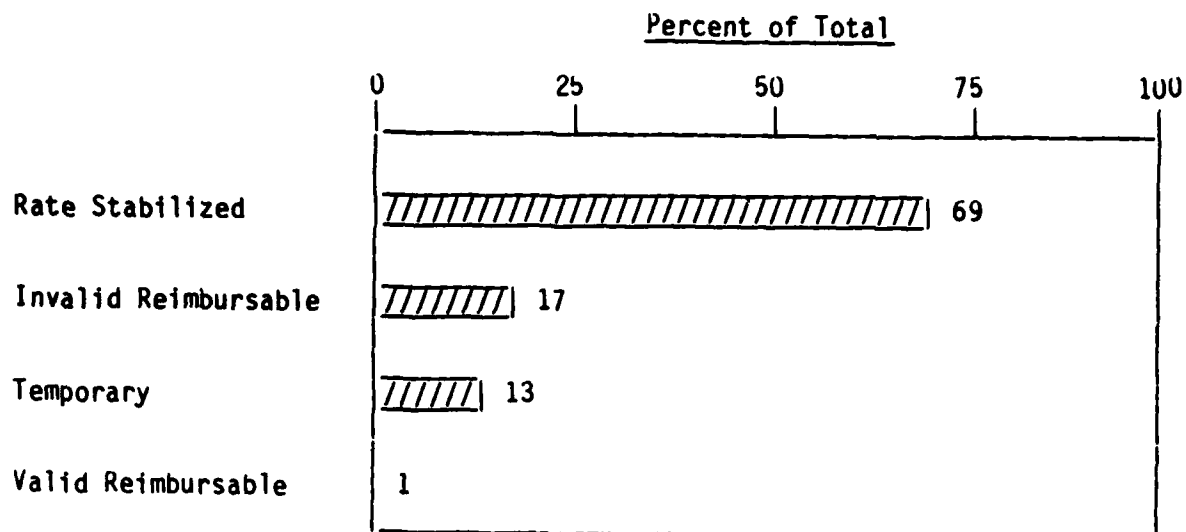


Figure 5. Distribution of Completed FY 85 Project Orders as of May 1986

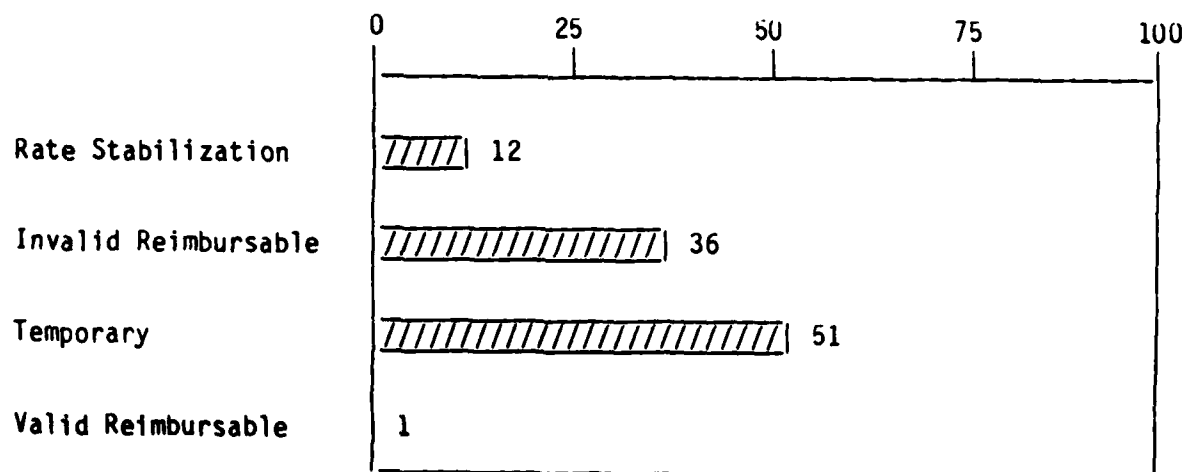


Figure 6. Dollar Value Distribution of Completed FY 85 Project Orders as of May 1986

The dollar value analysis shows that although completed stabilized rate orders represent 69 percent of the total number of project orders, they represent only 36 percent of the total value. Temporary orders represent 13 percent of the number of project orders and 51 percent of the total dollar value. As work on additional temporary orders is completed, these orders will be classified as rate stabilized orders.

5.3. Summary of Findings.

A high proportion of project and service orders is cost reimbursable. Temporary orders are used at DESCUM in accordance with AMC policies. The use of these orders is not specifically authorized by either DA or DOD policy. Temporary orders account for 51 percent of the dollar value of all project orders. Most cost reimbursable orders fall outside of the four exclusions authorized by the revised DA policy on fixed rate orders. Of the cost reimbursable orders which lie outside the exclusion criteria, most involve orders for NSNs with either overhaul or repair work.

6. SURVEY

6.1. Background.

The Army policy on stabilized rates was modified in March 1986 with an effective date of May 1986 after we began our analysis of DESCUM and prior to initiation of our analysis of other AMC activities. Rather than continue an analysis of the remaining AMC activities under the former policy, we decided to examine the impact that the new policy may have on stabilized rates.

A questionnaire was developed and mailed to program managers at 17 AMC industrial fund activities. The questionnaire was designed to obtain anonymous responses, and 13 of the 17 activities provided replies. A copy of the questionnaire is attached at Appendix A.

6.2. Data Analysis.

Question 1 was designed to determine whether stabilized rates had reduced the number of program adjustments. One of the criticisms made concerning AIF program prior to the introduction of stabilized rates was the complaint by customers of the frequent need for quantity adjustment to remain within approved dollar limits. STATEMENT: Our organization's rate stabilization program has reduced the need for program adjustments.

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
Agree	11	85
Disagree	2	15
Don't know	0	0

Eighty-five percent of the respondents believed that stabilized rates had reduced the need for program adjustments, a basic objective of the stabilized rate program.

Question 2 was intended to measure the respondents knowledge about programs excluded from the rate stabilization program. STATEMENT: Some programs are not subject to stabilized rates. I estimate that the number of category exclusions is _____.

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
0-4 exclusions	7	54
5-8 exclusions	6	46
More than 8 exclusions	0	0

AR 37-110 identifies 19 types of programs which may be excluded from the program. The revision to AR 37-110 will allow only 4 exclusions. Results from the responses to Question 2 reveal that program managers are aware of the restrictive nature of the exclusions.

The basic objective of the stabilized rate program as stated in AR 37-110 was to stabilize customer budgets. Question 3 was intended to assess the views of program managers on the objectives of the stabilized rate program. STATEMENT: As I understand the rate stabilization program, its objectives include the following:

<u>Response</u>	<u>Respondents</u>		<u>Percent</u>	
	<u>Y</u>	<u>N</u>	<u>Y</u>	<u>N</u>
To satisfy Congress	6	7	46	54
To reduce costs	1	12	8	92
To stabilize customer budgets	13	0	100	0
To discourage profit making	2	11	15	85

Responses from Question 3 reveal that program managers are aware of the objectives of the program. All respondents correctly indicated that the objective of stabilized rate programs was to stabilize customer budgets. Only 1 of the 13 responses believed that the program was directed also at the reduction of costs. Stabilized rates have no direct impact on actual costs. A high percentage (46%) also feel that Congress had a role in stabilized rates.

Question 4 was designed to measure the program manager's attitude on stabilized rates. Simply put, was the program a good idea? STATEMENT: The rate stabilization program is a good idea.

<u>Responses</u>	<u>Respondents</u>	<u>Percent</u>
Agree	11	84
Disagree	1	8
No opinion	1	8

Program managers overwhelmingly agree that the rate stabilization program is a good idea. This attitude on the part of key players should facilitate the implementation of the revised, expanded rate stabilization policy.

Question 5 attempted to measure the degree to which activities used stabilized rates in FY 85. We were unable to identify in any existing regulations or policies, reporting documents which displayed the proportion of rate stabilized programs versus cost reimbursable programs. The analysis in the previous chapter examined DESCOM's performance with stabilized rates. Question 5 attempted to obtain similar data on a macro level for all AMC Industrial Fund activities. STATEMENT: The amount of my organization's total FY 85 AIF revenue which was generated from rate stabilized programs was approximately.

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
0-25 percent	0	0
26-50 percent	1	8
51-75 percent	4	33
76-100 percent	7	59

(1 activity did not respond to Question 5)

Although these results are not precise, the largest proportion of activities report that over 76 percent of their revenues are obtained from rate stabilized programs. Only one activity reported revenue from stabilized rates at a level of less than 50 percent.

Question 6 addressed price changes for stabilized programs. Under current procedures, price changes are warranted only when changes of scope occur to customer orders. Such changes involve the nature of the work or possibly a change in quantities. Changes must be approved by DA or DOD. This question attempted to obtain program manager's perception of the facility of obtaining price changes. Easy approval of prices would diminish the impact of stabilized rates. STATEMENT: Changes to fixed prices/fixed rates are easy to get approved.

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
Agree	0	0
Disagree	10	83
Don't know	2	17

(One respondent did not answer)

Replies indicate that program managers perceive that price changes are not easy to get approved. This perception should provide incentives for managers to provide realistic initial cost estimates.

One of the findings by GAO was that activities did not use stabilized rates because they claimed that work was frequently different from work which had been performed previously. GAO stated that fixed prices could be estimated with reasonable accuracy under uncertain conditions. Question 7 attempted to obtain the views of AMC program managers on this issue. STATEMENT: It is not possible to establish a fixed price/rate for work which is different or unique from that previously accomplished.

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
Agree	4	31
Disagree	9	69
Don't know	0	0

A large proportion of the respondents agreed with the view of GAO. It is possible to establish fixed rates for different or unique programs.

On 1 May 1986, a new DA policy concerning fixed rates was to become effective. Question 8 was designed to determine whether AMC activities were aware of the new policy and to obtain their views on the impact which the new policy would have on cost reimbursable programs. STATEMENT: A new DA policy was to become effective on 1 May 1986.

Are you aware of the new policy?

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
Yes	13	100
No	0	0
Don't know	0	0

Will this policy reduce the number of your cost reimbursable programs?

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
Yes	11	85
No	2	15
Don't know	0	0

All respondents indicated an awareness of the revised DA policy and a large proportion (85%) believed that the new policy would result in a reduction in the number of cost reimbursable programs.

There has been some interest at DOD to remove all cost reimbursable functions from the industrial fund program. These cost reimbursable functions would be financed by appropriated funds. Question 9 was intended to solicit the views of AMC personnel on this issue. STATEMENT: Cost reimbursable programs should remain in the AIF program.

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
Agree	12	92
Disagree	1	8
Don't know	0	0

AMC program managers believe that cost reimbursable programs should remain within the AIF program. This is not a surprising outcome, since the removal of cost reimbursable tasks would diminish the size and value of the AIF.

Our tasking for this study was to review current policy to determine if there was any conflicts. Question 10 was intended to obtain the perception of program managers on the quality and timeliness of guidance. STATEMENT: Policy statements and procedural guidance from higher headquarters on the rate stabilization program have been timely and adequate.

<u>Responses</u>	<u>Respondents</u>	<u>Percent</u>
Agree	5	38
Disagree	7	58
No opinion	1	4

Results reveal a large proportion of program managers who were not satisfied with the guidance received from higher headquarters.

Question 11 is related to Question 10. Whereas Question 10 was designed to obtain perceptions of quality of guidance, Question 11 was intended to solicit perception of why the guidance was considered poor. STATEMENT: Higher headquarters is aware of and understands the difficulties we have encountered in implementing and establishing stabilized rates.

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
Agree	3	23
Disagree	7	54
Don't know	3	23

Responses reveal that most program managers believed that higher headquarters did not understand the problems involved in implementing stabilized rates. Only 3 of 13 respondents indicated that higher headquarters were aware of problems. The responses may indicate a communication problem between levels of authority.

Question 12 is related to Question 9. Given a choice between converting all cost reimbursable programs to fixed price or removing all cost reimbursable programs from the AIF, which alternative would AIF managers select? STATEMENT: OSD apparently feels that cost reimbursable work should not be performed by industrial funded activities. Listed below are two things which the Army could do to satisfy OSD. Please indicate which one of the two you would rather have the Army do.

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
Remove cost reimbursable programs from the industrial fund and finance under an appropriated system.	3	25
Convert all industrial funded programs to fixed price/fixed rate programs.	9	75

(One respondent did not answer)

The results of Question 12 are consistent with the results of Question 9. Most program managers want cost reimbursable programs to remain in the AIF; when faced with the decision to eliminate cost reimbursables or convert them to fixed price, 75 percent of the respondents would convert the programs to fixed price.

Question 13 attempted to identify some of the problems encountered by AIF managers in implementing the rate stabilization program. STATEMENT: Listed below are some problems which could harm or reduce the effectiveness of the rate stabilization program. Please indicate for each program whether the problem describes or does not describe a problem your activity has encountered.

<u>Problem</u>	<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
No guidance from higher headquarters	Yes	4	33
	No	7	58
	Don't know	1	9
No previous cost history on programs	Yes	11	92
	No	1	8
	Don't know	0	0
Frequent changes to program quantities	Yes	9	75
	No	3	25
	Don't know	0	0
Scope of work not properly defined	Yes	11	92
	No	1	8
	Don't know	0	0
Rate stabilization program not understood by operating personnel	Yes	5	42
	No	7	58
	Don't know	0	0

(One respondent did not answer)

These responses indicate that difficulties in implementing the rate stabilization program involve the nature of the work and not necessarily the procedures and training used by operating personnel. Ninety-two percent of the program managers identified programs without prior cost history and without defined scopes of work as being problem areas. Only one-third of the respondents identified problems with guidance from higher headquarters. This result places in doubt validity of response to Question 10 where 58 percent responded that guidance was not adequate.

Some programs were routinely processed as cost reimbursable orders. Question 14 attempted (for selected programs) to determine which programs accounted for the largest dollar value of revenue. STATEMENT: Some industrial fund activities have performed tasks on a cost reimbursable basis. Please examine the list below and indicate which functions provided the largest dollar revenue of your cost reimbursable program in FY 85. Which came in next? Which was the third most important? Which is the fourth most important?

<u>PROGRAM</u>	<u>RESPONSES</u>			
	<u>Most</u>	<u>Next</u>	<u>Third</u>	<u>Fourth</u>
Foreign Military Sales (FMS)	5	1	1	0
Non-Federal Customers	1	2	2	4
Sales from inventory	1	2	4	2
Programs with no cost history	2	5	1	2
Programs with poor scopes of work	2	1	3	2

(Two respondents did not answer)

FMS was the cost reimbursable program identified as being most responsible for the largest dollar value of FY 85 cost reimbursable revenue. Next in importance were those programs with no cost history. FMS, non-federal customers, and sales from inventory are costs included among the 19 original and 4 new exclusion categories.

Question 15 was related to the new policy guidance. The new guidance requested that each activity designate a manager for the stabilized rate program. STATEMENT: Has your activity designated a manager for the stabilized rate program?

<u>Response</u>	<u>Respondents</u>	<u>Percent</u>
Yes	8	64
No	4	36
Don't know	0	0

(One respondent did not answer)

Eight out of 12 activities responding indicated that they had designated a rate stabilization officer.

6.3 Summary.

a. AIF program managers believe the rate stabilization program has reduced the number of program adjustments.

b. AIF directors were aware of the objectives of stabilized rates.

c. AIF directors believe the rate stabilization program is a good idea.

d. AIF directors believe it possible to establish a fixed price for work not previously performed.

e. AIF directors were aware of the new policy and believed that it would reduce the number of cost reimbursable programs.

f. FMS programs and programs without prior cost history were most frequently identified as causes for cost reimbursable work.

g. Conflicting views concerning the timeliness and adequacy of program guidance exist.

7. FINDINGS

a. DA and DOD policies restrict the type of orders which can be processed on a cost reimbursable basis. Prior to March 1986, AMC policies encouraged cost reimbursable work by authorizing pricing methods which stabilized rates only after 40-50 percent of total costs have been incurred.

b. DESCOM, the largest AMC activity group, is adhering to AMC Regulation 750-28. This regulation conflicts with other AMC guidance.

c. The goals of the rate stabilization program are not clear. DOD policy is to establish stabilized rates wherever possible. Quantitative standards for measuring rate stabilization performance do not exist at any level. Financial reports do not break out cost reimbursable work from stabilized rate work.

d. AMC and DA policies on the rate stabilization program were modified on 1 May 1986. The number of programs excluded from the rate stabilized program was reduced from 19 to 4.

e. Most AMC AIF program managers feel that the revised DA policy will reduce the number of cost reimbursable programs at their activities.

8. CONCLUSIONS

a. Prior AMC policies and procedures encouraged a narrow application of rate stabilized programs.

b. Strict enforcement of the revised AMC and DA policies, which provide for only four exclusions to the rate stabilization program, will significantly reduce the number of cost reimbursable orders.

9. RECOMMENDATIONS

a. That DESCOM discontinue the use of pricing methods which result in the establishment of temporary orders. Temporary orders are orders which are converted to stabilized rate orders after 40-50 percent of the costs are incurred.

b. That AMC consolidate and rewrite policies in a single comprehensive document restricting cost reimbursable orders to the four DA approved exclusions and emphasizing the use of fixed prices rather than fixed rates.

c. That AMC, in coordination with individual program managers, establish quantitative standards for measuring rate stabilization performance.

d. That separate budget and financial forms be completed for rate stabilized work and for cost reimbursable work. Current reporting systems do not provide visibility to management over proportions of programs in cost reimbursable versus rate stabilized category.

e. That a HQ AMC proponent be assigned for every regulation and that all regulations be fully coordinated to avoid conflicting policies such as those created by AMC Regulation 750-28.

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APPENDIX

Questionnaire

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DEPARTMENT OF THE ARMY
U.S. ARMY MATERIEL SYSTEMS ANALYSIS ACTIVITY
LOGISTICS STUDIES OFFICE
FORT LEE, VIRGINIA 23801

REPLY TO
ATTENTION OF

AMXSU-LLSO

18 July 1986

SUBJECT: Army Industrial Fund (AIF) Rate Stabilization Program

SEE DISTRIBUTION

1. AMC has requested that this office perform an evaluation of the AIF Rate Stabilization Program.
2. We have designed a questionnaire to elicit data from functional personnel who work with the AIF program.
3. Request that the AIF Program Manager of your activity complete the enclosed questionnaire and return in the self-addressed envelope which has been provided.
4. To obtain candid responses, we are processing the replies on an anonymous basis.
5. Your completed questionnaire is requested by 1 August 1986. Thank you for your cooperation.

FOR THE DIVISION CHIEF:

Enclosures

Richard D. Abeysa
RICHARD D. ABEYTA
Acting Chief
Logistics Studies Office

DISTRIBUTION:

CDR, AMCCOM, ATTN: AMSMC-CPB
CDR, Watervliet Arsenal, ATTN: SMCWV-CPB
CDR, Rock Island Arsenal, ATTN: SMCRI-CPB
CDR, Pine Bluff Arsenal, ATTN: SMCPCB-CP
CDR, MICOM, ATTN: AMSMI-CO-PB
CDR, DESCOM, ATTN: AMSDS-RM-RB
CDR, Tooele Army Depot, ATTN: Budget Officer
CDR, Anniston Army Depot, ATTN: Budget Officer
CDR, Sierra Army Depot, ATTN: Budget Officer
CDR, Letterkenny Army Depot, ATTN: Budget Officer
CDR, New Cumberland Army Depot, ATTN: Budget Officer
CDR, Red River Army Depot, ATTN: Budget Officer

AMXSY-LLSO

18 July 1986

SUBJECT: Army Industrial Fund (AIF) Rate Stabilization Program

DISTRIBUTION (CONT'D):

CDR, Sacramento Army Depot, ATTN: Budget Officer

CDR, Sharpe Army Depot, ATTN: Budget Officer

CDR, Tobyhanna Army Depot, ATTN: Budget Officer

CDR, Corpus Christi Army Depot, ATTN: Budget Officer

CDR, Crane Army Ammunition Activity, ATTN: SMCCN-RMF

15 July 1986

INDEPENDENT SURVEY
OF THE
ARMY INDUSTRIAL FUND RATE STABILIZATION PROGRAM

QUESTIONNAIRE
DESIGNED BY THE
US ARMY MATERIEL SYSTEMS ANALYSIS ACTIVITY (AMSAA)
LOGISTICS STUDIES BRANCH
FORT LEE, VA 23801-6046

PURPOSE

To obtain data for evaluation of AMC's Industrial Fund Rate Stabilization Program.

INSTRUCTIONS

Addressees please complete and return to AMSAA by 31 July 1986. All responses will be processed on a confidential basis and will remain non-attributive.

QUESTIONNAIRE

Rate Stabilization Program

1. Our organization's rate stabilization program has reduced the need for program adjustments. ☐ Agree ☐ Disagree ☐ Don't know

2. Some programs are not subject to stabilized rates. I estimate that the number of category exclusions is ☐ 0-4 exclusions ☐ 5-8 exclusions
☐ More than 8 exclusions

3. As I understand the rate stabilization program, its objectives include the following:

- a. To satisfy Congress ☐ Yes ☐ No
 - b. To reduce costs ☐ Yes ☐ No
 - c. To stabilize customer budgets ☐ Yes ☐ No
 - d. To discourage profit making ☐ Yes ☐ No
-

4. The rate stabilization program is a good idea. ☐ Agree ☐ Disagree ☐ No opinion

5. The amount of my organization's total FY 85 AIF revenue which was generated from rate stabilized programs was approximately (check one) ☐ 0-25 percent
☐ 25-50 percent
☐ 51-75 percent
☐ 76-100 percent

6. Changes to fixed prices/fixed rates are easy to get approved. ☐ Agree ☐ Disagree ☐ Don't know

7. It is not possible to establish a fixed price/rate for work which is different or unique from that previously accomplished. ☐ Agree ☐ Disagree ☐ Don't know

8. A new DA policy which was to become effective on 1 May 1986 allows four exclusions to the stabilized rate program. These exclusions are FMS, non-federal customers, base closure, and sales from AIF inventory.

a. Are you aware of the new policy? ☐ Yes ☐ No ☐ Don't know

b. Will this policy reduce the number of your cost reimburseable programs? ☐ Yes ☐ No ☐ Don't know

9. Cost reimburseable programs should remain in the AIF program. ☐ Agree ☐ Disagree ☐ Don't know

10. Policy statements and procedural guidance from higher headquarters (DA and above) on the rate stabilization program have been timely and adequate. ☐ Agree ☐ Disagree ☐ No opinion

11. Higher headquarters is aware of and understands the difficulties we have encountered in implementing and establishing stabilized rates. ☐ Agree ☐ Disagree ☐ Don't know

12. OSD apparently feels that cost reimburseable work should not be performed by industrial funded activities. Listed below are two things which the Army could do to satisfy OSD. Please indicate which one of the two you would rather have the Army do. Check one.

☐ Remove cost reimburseable programs from the industrial fund and finance under an appropriated system.

☐ Convert all industrial funded programs to fixed price/fixed rate programs.

13. Listed below are some problems which could harm or reduce the effectiveness of the rate stabilization program. Please indicate for each program whether the problem describes or does not describe a problem which your activity has encountered.

<u>Problem</u>	<u>Yes</u>	<u>No</u>	<u>Don't know</u>
No guidance from higher headquarters	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
No previous cost history on programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Frequent changes to program quantities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Scope of work not properly defined	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Rate stabilization program not understood by operating personnel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

14. Some industrial fund activities have performed tasks on a cost reimburseable basis.

a. Please examine the list below and indicate which functions provided the largest dollar revenue of your cost reimburseable program in FY 85? (Circle one code in column A.)

b. Which came in next? (Circle one code in column B.)

c. Which was the third most important? (Circle one code in column C.)

d. Which is fourth most important? (Circle one code in column D.)

	<u>A</u> <u>Most</u>	<u>B</u> <u>Next</u>	<u>C</u> <u>Third</u>	<u>D</u> <u>Fourth</u>
(1) Foreign Military Sales	1	2	3	4
(2) Non-Federal Customers	1	2	3	4
(3) Sales from AIF inventory to tenants/satellites	1	2	3	4
(4) Program with no previous cost history	1	2	3	4
(5) Program with poorly defined scopes of work	1	2	3	4

15. Has your activity designated a manager for the stabilized rate program?

☐ Yes

☐ No

☐ Don't know

Thank you for your assistance. Anonymous summary level results of the survey will be provided to all addressees after responses have been compiled.

OPTIONAL RESPONSE

Activity: _____

Name: _____

Phone: _____

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END

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